

Customer Requested Due Dates. Verizon examined how often special access customers requested due dates longer than the standard minimum provisioning interval offered by Verizon BOC/ILECs when facilities exist. Verizon performed an analysis of all special access orders for July 2002 in both New York and Pennsylvania. For this sample, 60% of the non-affiliate orders requested due dates longer than the standard minimum provisioning interval, whereas only 11% of the 272 affiliates orders requested a longer interval.

While Verizon does not necessarily know why some customers request longer intervals, it has reason to believe that customers sometimes do so because they need additional time to construct buildings, establish locations for telecommunications equipment, establish power and coordinate with other vendors prior to accepting service from Verizon.

That non-affiliate customers typically have requested longer intervals than did Verizon's 272 affiliates is important because it extends the observed installation interval for non-affiliates due to customer actions. It is the practice of Verizon's ILEC operations, consistent with desires of its customers, to adjust provisioning so that service is delivered on the due date requested by the customer. Thus, the fact that individual customers request special access installation intervals of differing lengths and that Verizon adjusts its installation performance to meet these individual network planning needs is not an indication of discrimination. The greater percent of non-affiliate orders where customers request longer intervals is clearly *nontrivial*.

Facilities Builds. Installation takes longer when new facilities must be built rather than rely on existing facilities to satisfy a customer's order. Based on the relatively higher volume of DS1s in NY for July 2002, Verizon did further examination on this month. Verizon examined a sample of 117 non-affiliate DS1 orders in July 2002 with an average installation interval of 26 days. There were 10 DS1 orders from section 272 affiliates with an average installation interval of 16 days. Upon examination, 40 of the 117 non-affiliate orders (34%) required Verizon to build facilities, while none of the orders from 272 affiliates required a facilities build. When examining only the orders where a "facilities build" was not required, the average installation interval for the 77 non-affiliate orders was 16 days, equal to the 16 days for the section 272 affiliates. Once the "facilities build" characteristic was isolated, results were comparable for the affiliate.

The results above are consistent with Verizon's understanding of the network deployment strategies of non-affiliate carriers as compared to Verizon's 272 affiliates. In general, Verizon's 272 affiliates typically have purchased special access service along high-density routes in the larger metropolitan areas. This is because Verizon's 272 affiliates are targeting high-end business customers. Thus, the Verizon 272 affiliates have been using special access services to serve large business customers that tend to be national in scope and tend to be in locations that have preexisting fiber routes. In contrast, non-affiliate carriers are using special access services to provide service to all market segments, including mid-market and lower-market segments. Non-affiliate carrier customers purchase special access in both high-density routes and medium- and low-density routes – but use different deployment strategies depending on network economics. In instances where non-affiliated carriers have enough volume, they have the option of self-provisioning their own networks. In this case, the carrier customer may decide to build its own network rather than purchase from another provider. For lower-density applications, non-affiliate carriers have tended to choose to use Verizon or other

providers of dedicated transport, as opposed to choosing self-provisioning. The Verizon BOC/ILEC is typically less likely to have existing facilities available for use as a special access circuit in the less dense, more remote customer-specific locations. This results in non-affiliate orders more frequently requiring facilities builds than Verizon's 272 affiliates. Orders that require facilities to be built typically take longer to provision than orders that can utilize existing facilities. Thus, selection by the customer of the location of the requested circuit, a factor beyond Verizon's control, affects the experienced average installation interval.

Fiber vs. Copper. Verizon also examined a sample of instances where it provides the requested special access services using fiber and compared it to instances where it used copper. Essentially all of Verizon's BOC/ILEC interoffice facilities and facilities to carrier points of presence are fiber. Facilities to end user customer premises can be fiber or copper depending on a multitude of factors associated with each specific location. Typically large customer locations with multiple DS1 special service circuits to them are more likely to be served by fiber than copper, while smaller locations with less demand are more likely to be served by copper. The availability of fiber at a location will make it more likely that capacity is available for future circuits, improving provisioning intervals at these locations. Usually, provisioning over existing fiber can be accomplished more quickly than provisioning of copper loops, a larger percent of which typically require facilities to be built.

An examination was done of DS1 services installed in New York during 2002, again because this state has a relatively higher volume of orders. Two customers' circuits were selected: (1) the primary Verizon section 272 affiliate; and (2) a major unaffiliated carrier customer. All of those two customers' circuits installed in New York during 2002 were reviewed. For the section 272 affiliate, during 2002, 100% of the requested special access circuits were requested on routes in locations where Verizon BOC/ILEC provisioned DS1 circuits over fiber end to end. For the major unaffiliated carrier studied, the locations of the circuits requested resulted in 42% of the DS1 circuits using copper loops.

Non-affiliate carriers have tended to market to a wider cross section of end user customers that are in locations where there has not been a high concentration of existing telecommunications facilities. Thus, non-affiliated carrier special access orders have a tendency to be in more remote locations or to require tail circuits to customer locations where the use of copper facilities is indicated.

The above cases provide an assessment of key variables that may result in shorter installation intervals for the 272 affiliate, yet there was no discriminatory treatment of the section 272 affiliate by the Verizon BOC/ILEC.

#### **Special Access Maintenance**

Fiber vs. Copper. Network trouble incidents are typically less frequent and are restored more quickly on special access circuits that ride fiber facilities than on those that ride copper facilities. Thus, it is instructive to recall the results from installation data for fiber versus copper facilities discussed above. Recent provisioning activity for the section 272 affiliates indicates a greater share of special access circuits on fiber than for non-affiliates. Also, we can examine information about the overall embedded base of special access circuits on fiber versus copper.

An examination was done of DS1 services in service as of March 31, 2003 in New York. Two customers' circuits were selected: (1) the primary Verizon section 272 affiliate; and (2) a major unaffiliated carrier customer. All of those two customers' existing base of circuits in New York were reviewed. For the section 272 affiliate, 79% of the existing base of DS1 circuits were on all-fiber routes, the remaining 21% having a copper local loop segment. For the major carrier studied, 64% of the DS1 circuits were on all-fiber routes, with the remaining 36% having a copper local loop segment. In general, non-affiliate special access circuits in service have a greater percentage of copper loops than section 272 affiliate circuits. These percentages were confirmed by examining another high-volume state, Massachusetts, and a different major unaffiliated carrier customer. For this sample, 72% of the Section 272 affiliate DS1 services were on all-fiber routes, whereas 56% of the non-affiliated carrier's DS1 services were on all-fiber routes.

Verizon then examined trouble reports in the larger states. The trouble reports submitted by section 272 affiliates in 2001 and 2002 in New York, Massachusetts, Pennsylvania and New Jersey were examined. These were compared with a sample of 235 trouble reports submitted by non-affiliate customers in New York from September of 2002. Approximately 57% of the trouble reports received from section 272 affiliates were on special access circuits with fiber local loop facilities whereas 40% of the trouble reports received from non-affiliate carriers were on circuits with fiber local loop facilities.

It is typically easier and quicker for Verizon to clear a network trouble on a fiber loop than on a copper loop. Fiber loops do not have the multiple cross connects in the field that copper loops have. As a result, fiber loops tend to experience trouble less often and the required fix is more often at the central office or a customer premises, as opposed to on a pole line or in an underground facility. Copper facilities ride cables with basic exchange services and therefore run through multiple splices and cross connections within the field. Facility troubles on copper often require dispatches to several outside work groups such as Special Services repair and construction. Many times, tickets get referred to other work groups to get resolution. Interdepartmental team conference calls can be required to resolve these issues. Since fiber circuits do not have as many possible failure points, multiple dispatches and interdepartmental coordination is less likely to be required.

In addition, copper loops need regeneration approximately every 3,000 feet or less (depending on the specific technology being used), whereas a fiber loop does not. These regenerators can and do break down at times. When regenerators fail, an outside dispatch is needed to sectionalize and repair them.

As a result of the increased number of cross connect points and the presence of basic exchange services on copper cables, copper facilities typically are more prone to plant operating errors in the field. These include troubles caused by human errors such as crossing up terminals at a cross-connect box, which typically require a dispatch to clear, resulting in longer repair intervals. Fiber loops are usually segregated from or independent from copper facilities, do not have the cross connect points in the field and thus are protected from the type of inadvertent errors in the field described above.

Connectivity to network elements for remote testing has been greatly improved on fiber, whereas on copper facilities, remote testing is more challenging due to numerous points

of access for typical copper facilities and the additional possible points of failure within copper circuit legs.

Fiber technology is, by design, more dependable than copper. For example, survivability features, redundant designs and SONET technology typically have a lower failure rate and shorter average repair interval than copper.

Low Volumes. Finally, the differences between affiliate and non-affiliate repair intervals should not be considered an indicator of a meaningful pattern due to the low volume of repairs observed for the section 272 affiliates. For instance, the section 272 affiliate had only 10 repair orders in New York for all of 2002 that involved copper facilities, making it difficult to draw conclusions about the differences in average repair intervals with non-affiliate repairs on copper facilities.

### **FG-D Installation and Repair**

Verizon examined the aggregate reported results for FG-D by state by month for the 434 FG-D installation orders and the 165 FG-D trouble tickets. Though there were over twice as many FG-D installation orders in 2002 as there were special access orders, it is still difficult to identify meaningful patterns. In more than half of the instances, the reported monthly aggregate service performance results for section 272 affiliate showed longer intervals (or lower percent installation commitments met) than for the non-affiliated carriers. Due to random variation (absent any other factors that might affect the reported results), one would expect the non-affiliate results would show longer intervals (or lower percentages) in approximately 50% (half) of the instances. For FG-D installation results, in months where the 272 affiliate had volumes, the non-affiliate category had longer intervals in 29% of the instances. For the FG-D repair interval results, the non-affiliate category had longer intervals in 49% of the instances. Because these results are consistent with random variation, Verizon performed no further examination into the reported FG-D results."

We requested of management linear graphs for the Average Time of PIC Change performance measure for each state, over the entire engagement period, depicting the performance for the Section 272 affiliates and nonaffiliates. For all of the graphs obtained from management, we compared the data point depicted on the graph to the underlying data points in the performance measurement reports reported in Attachment A and noted no differences.

The linear graphs provided by management under this procedure are included in Attachment B to this report.

5. We selected a random sample of 85 performance measures reported from January 3, 2001 to September 30, 2002. With the approval of the Joint Oversight Team, the random sample was revised and a modified sample was derived. The modified sample included one instance for each of the following four operational regions in Verizon's territory: New York (New York and Connecticut), New England (Massachusetts, Rhode Island, Vermont, Maine, New Hampshire), NPD (New Jersey, Pennsylvania, Delaware) and Pennsylvania (former GTE). The last instance of a reported measure for a given month in the random sample was selected for replication.

The following are the performance measures that were selected for replication (Reference Table 28):

**Table 28**

No.	Performance Measure	Month	State
1	Firm Order Confirmation Response Time	May 2002	Pennsylvania (GTE)
2	Firm Order Confirmation Response Time	June 2002	New York
3	Firm Order Confirmation Response Time	June 2002	Massachusetts
4	Firm Order Confirmation Response Time	June 2002	Pennsylvania (BA)
5	Average Installation Interval	September 2001	New York
6	Average Installation Interval	January 2002	Pennsylvania (BA)
7	Average Installation Interval	April 2002	Massachusetts
8	Average Installation Interval	August 2002	Pennsylvania (GTE)
9	Percent Installation Commitments Met	June 2002	New York
10	Percent Installation Commitments Met	June 2002	Pennsylvania (GTE)
11	Percent Installation Commitments Met	August 2002	Vermont
12	Percent Installation Commitments Met	August 2002	New Jersey
13	Total Trouble Reports	January 2002	New York
14	Total Trouble Reports	June 2002	Pennsylvania (BA)
15	Total Trouble Reports	July 2002	Rhode Island
16	Total Trouble Reports	July 2002	Pennsylvania (GTE)
17	Average Repair Interval	September 2001	New York
18	Average Repair Interval	June 2002	Pennsylvania (GTE)
19	Average Repair Interval	September 2002	Massachusetts
20	Average Repair Interval	September 2002	Pennsylvania (BA)
21	Average Time of PIC Change	January 2002	New York
22	Average Time of PIC Change	April 2002	Massachusetts
23	Average Time of PIC Change	September 2002	Pennsylvania (BA)

For each of the performance measures selected for replication, we obtained the related underlying transaction data files from management. We inquired of management regarding the methods and/or queries used to extract the underlying data from the Verizon BOC/ILEC's Operational Support Systems and performance measurement systems into the transaction data files. We obtained and reviewed the queries used to extract the data from the underlying operational support systems and performance measurement systems. We compared the queries, including the application of any selection criteria or exclusions, to the business rules obtained in Objective VIII, Procedure 3.

We noted in the queries used for the Maintenance and Repair Measures (Total Trouble Reports, Average Repair Intervals) that the queries used by the Verizon BOC/ILEC use the date the trouble report was closed for purposes of extracting data for the current reporting month. The business rules describe the date as the trouble reports "referred to the ILEC by Interexchange carriers/customers during the current reporting period."

We noted in the queries used for the Maintenance and Repair Measures for the BOC and the ILEC that the queries excluded certain trouble codes which are used by the Verizon BOC/ILEC to classify the nature and characteristics of their trouble report and repair orders. The business rules for the Trouble Report and Average Repair Interval do not specify such exclusions. We inquired of management and management provided the following response:

“Verizon-East reports only those troubles that are considered measured troubles. Measured troubles include the major categories of CO (central office troubles), FAC (outside plant and station troubles) and NTF (no trouble found). The trouble categories of 'IEC' (trouble isolated to IEC equipment or facilities), 'INF' (information ticket) and 'CPE' (trouble isolated to customer equipment) are not considered measured troubles and consequently are not reported. Non-measured troubles are typically administrative in nature or not under the control of Verizon.

Verizon-West reports troubles based on disposition codes. The disposition codes specified in the West identify troubles associated with network terminating facilities, outside plant, transmission & interoffice facilities, central office and no trouble found conditions. The troubles reported in Verizon-West based on these disposition codes are consistent with the measured troubles reported in Verizon-East. Similarly, Verizon-West excludes codes that are administrative or not under Verizon's control, namely, troubles that are isolated to customer error, information tickets and troubles isolated to customer provided equipment.”

We noted in the queries used to extract the data for the Pennsylvania (former GTE) Average Installation Interval, Percent Installation Commitments Met, Total Trouble Report and Average Repair Interval that the query excluded certain ACNAs (“ASC,” “GIE,” “GTT,” and “GSX”). The business rules do not specify such exclusion. We inquired of management and management indicated that these ACNAs identify Genuity transactions, a non-affiliate. Management further indicated that there was no installation activity in 2001 and one installation order for Genuity in Pennsylvania (former GTE) in 2002, and that there were four trouble reports in 2001 and one trouble report in 2002 for Genuity in Pennsylvania (former GTE).

We noted in the queries used to extract the Feature Group D installation and repair and maintenance transaction data for Pennsylvania (GTE) that the extraction criteria did not specify Feature Group D, but instead captured “all message data.” We inquired of management and management provided the following response:

“Feature Group D is likely the only service contained in all message data. If Ordering/reporting activity would contain small amounts of Feature Groups A, B or C, they would also be included. Verizon's experience indicates that the amount of activity related to Feature Groups A, B or C is immaterial.”

We developed independently, based on our review of the business rules for the calculation of the performance measures, program code to apply the algorithms and calculation criteria for the calculation of the performance measures to the underlying transaction data we obtained. Using the program code developed, we recalculated each of the performance measures selected in the modified sample, including the following:

- Recalculated the time intervals at the individual transaction level in all instances where the time interval was calculated and not extracted directly from the Operational Support Systems;
- Recalculated the performance measures for relevant service types (i.e., DSO, DS1, etc.), where required based on the business rules for the performance measure and the classification as required by the procedures. Where the service type was identified in the performance measure, we obtained and examined the Service Class table from management (which provides the classifications for individual service types recorded in the transaction data), and compared the Service Classifications in the transaction data to the Service Classification Table.
- Recalculated the performance measures by the required reporting segmentation (i.e., 272 affiliate, other affiliates, and non affiliates) where required based on the business rules for the performance measures and the segmentation as required by the procedures. We obtained and examined the Customer Table from management (which provides the underlying detail regarding customer codes and their segmentation) and compared the Customer Classifications in the transaction data to the Customer Table.
- Recalculated the standard deviations for the Firm Order Confirmation Response Time, Average Installation Interval, Average Repair Interval and Average Time of PIC Change performance measures selected in our sample, where appropriate.

Throughout the results of our procedures, the term “performance measure” or “performance measure results” relates to the results that have been provided by the Company and provided in Attachment A to this report. The term “individual transaction” relates to individual orders or trouble reports that are included in the performance measure results.

The results of the procedures described above are as follows:

**Installation Measures: Firm Order Confirmation Response Time, Average Installation Interval, Percent Installation Commitments Met**

- We noted 28 out of the 2,723 individual transactions in the NY Average Installation data for September 2001 were included in the results when they were completed in the prior month. We included these transactions in the current reporting period in our recalculations and noted no differences between our recalculated performance measure result and that reported by the Company. We inquired of management and management provided the following response:

“An order is not completed until all aspects of the order (installation work, testing, inventory, billing, etc.) have been completed and the final disposition of the order has been entered into the system. The “load date” in the West and the “DD CRD” in the East represent the time stamps where the final disposition of the order has been entered into the system. These time stamps represent the earliest date at which results associated with an individual order can be reported. From a system perspective, the actual completion date for the customer installation work is unknown until the final disposition of the order has been entered in to the system. [The vast majority of orders will have an Actual Completion date and a System Completion date that are the same or very close such that reporting occurs in the same month. For a small fraction of orders there is a lag between the actual completion date and the system completion date (due

to stress testing, customer acceptance, etc.) that causes reporting to occur in the month following the completion of the customer installation work. This carryover is unavoidable as the orders cannot be managed until they are completed in the system]. Use of system completion dates is a consistent reporting practice across the Verizon footprint.”

- We noted certain differences between our recalculated time intervals for individual transactions and the time intervals calculated for individual transactions by the Verizon BOC/ILEC for the NY Average Installation Interval measure for September 2001.
  - For 10 of the 2,723 individual transactions in the NY Average Installation data for September 2001, our recalculated time intervals were different from the time intervals calculated by the Verizon BOC/ILEC. We inquired of management and management indicated that the Verizon BOC/ILEC’s calculation algorithm did not apply all of the appropriate holiday exclusions, resulting in the calculated time interval being understated.
  - For an additional 3 of the 2,723 individual transactions in the NY Average Installation data for September 2001, our recalculated time intervals were different from the time intervals calculated by the Verizon BOC/ILEC. We inquired of management and management indicated that the differences were attributable to the Verizon BOC/ILEC’s interval calculation algorithm incorrectly calculating intervals when the start date and end date of the specific transactions were on the weekend on the same day.

As a result of the differences in the interval calculation for the individual transactions described above, we noted the following differences in the Average Installation performance measure results and standard deviation results for the month of September 2001 (Reference Table 29):

**Table 29**

No.	NY Average Installation Interval (Days)	Verizon Interval	PwC Interval	Verizon Standard Deviation	PwC Standard Deviation
1	DS0 Non- Affiliate	19.3	19.2	50.5	49.5
2	DS1 Non-Affiliate	24.2	24.1	28.1	27.9
3	DS3 Non-Affiliate	51.6	51.5	63.0	62.6

- We noted 15 orders out of 9,590 order transactions in the Firm Order Confirmation files obtained from the Verizon BOC/ILEC for which the individual order transaction’s calculated time interval did not match our recalculated time interval for that individual order transaction. We inquired of management and management indicated the Verizon BOC/ILEC’s calculation algorithm duplicated activity on certain individual order transactions, which overstated their calculated intervals. The time interval difference for the 15 individual order transactions did not impact the performance measure results (when we compared our recalculated performance measure results to the Verizon BOC/ILEC’s reported performance measure results, we noted no difference.) The time interval difference for the 15 individual order transactions did impact the performance measures’ standard deviation. When we

compared our recalculated standard deviations to the Verizon BOC/ILEC's reported standard deviations we noted the following difference (Reference Table 30):

Table 30

No.	Pennsylvania (GTE) FOC (Days)	Month	Verizon Standard Deviation	PwC Standard Deviation
1	DS1 Non-Affiliate	May 2002	1.2	1.1

#### Maintenance and Repair Measures: Total Trouble Reports, Average Repair Interval

- We noted one transaction of the New York Trouble Ticket file for January 2002 for which the ACNA (Access Carrier Name Abbreviation) field was blank (the ACNA field is used to identify the Carrier as a 272 affiliate, other affiliate, or non affiliate). We inquired of management and management indicated that they were unable to identify the carrier associated with this transaction as the underlying circuit has been disconnected. We noted that the reported results in Attachment A reported the results of this transaction with the nonaffiliates. We included this transaction in the recalculated nonaffiliate results and noted no differences between our recalculated performance measure results and the Verizon BOC/ILEC's reported performance measure results.

#### Average Time of PIC Change Measure

- We compared our recalculated Average Time of PIC Change measure results to the Average Time of PIC Change measures reported by the Verizon BOC/ILEC and noted differences in our recalculated result and the Verizon BOC/ILEC's reported result, as detailed in Table 28 below. We inquired of management and management provided the following response:

"The daily AC Sent-To-Switch Summary report is produced by Xpress Electronic Access (XEA) just after midnight for the previous day. The report would contain any records that were processed by the switch and returned to XEA on that previous day. At that time, any records that have not yet been returned to XEA from Switch Manager, though the switch processed them on the previous day, would not appear on the daily Summary report. This appears to be the source of the discrepancy between the Summary report and the Transactional data. To achieve consistency between the two data sources, system enhancements will be implemented."

We noted that the performance measure results were calculated using the AC Sent-To-Switch Summary report and the standard deviations were calculated using the underlying transaction data (Reference Table 31).

Table 31

No	State	Month	Affiliate/ Nonaffiliate	Verizon Volume	PwC Volume	Verizon Interval (Hours:Mins)	PwC Interval (Hours:Mins)
1	NY	January 2002	Non Affiliate	*proprietary*	*proprietary*	7:22	7:23
2	MA	April 2002	Affiliate	*proprietary*	*proprietary*	3:16	2:56

No	State	Month	Affiliate/ Nonaffiliate	Verizon Volume	PwC Volume	Verizon Interval (Hours:Mins)	PwC Interval (Hours:Mins)
3	MA	April 2002	Non Affiliate	*proprietary*	*proprietary*	2:08	2.08
4	PA	September 2002	Non Affiliate	*proprietary*	*proprietary*	2:11	2.12

- We compared our recalculated Average Time of PIC Change measure results to the Average Time of PIC Change measures reported by the Verizon BOC/ILEC and noted differences in our recalculated result and the Verizon BOC/ILEC's reported result, as detailed in the Table below. We inquired of management and management indicated that the differences could be attributed to rounding of transaction data in the calculations (Reference Table 32).

Table 32

No.	State	Month	Carrier	Verizon Volume	PwC Volume	Verizon Interval (Hours:Mins)	PwC Interval (Hours:Mins)
1	NY	January 2002	Affiliate	*proprietary*	*proprietary*	1:11	1:12

- Management self-disclosed that PIC change orders from two outside vendors providing sales services for a Section 272 affiliate were not captured in the Average Time of PIC Change measure prior to July 8, 2002. We inquired of management as to the impact of the PIC change orders from two outside vendors and management indicated that they had researched the impact and determined that the inclusion of these additional PIC orders would result in longer Average PIC Intervals for the Section 272 affiliate.
6. We inquired of management and documented how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals in providing service to the Section 272 affiliates, other affiliates and nonaffiliates.

Management indicated that a schedule that specifies the access services and quantities of services that can be provided in standard minimum provisioning intervals is made available to all access customers. Management indicated that a copy of this schedule is made available upon request and all carrier customers can obtain this schedule via access to the Verizon wholesale website. Management further indicated that customers could obtain information about these intervals by discussing the schedule with Verizon Account Managers and/or Verizon Customer Service Representatives. We inspected the Verizon wholesale website and noted a schedule which specifies the access services and quantities of services and their corresponding standard minimum provisioning intervals for the BOC. We noted similar information was available on the website for DS3 circuits for the ILEC.

Management also indicated that it does not routinely make available to unaffiliated entities information on service intervals in providing service to Section 272 affiliates, other affiliates, and nonaffiliates. Management also indicated that the Verizon BOC/ILEC's procedures address requests from individual entities for BOC service actually experienced interval data on a case-by-case basis. Management indicated that information requests of this nature enter the business through various channels (e.g. account manager, Carrier Account Team Centers (CATCs), legal, or senior management). Once the request is identified regulatory is notified.

Regulatory, in turn, contacts the business owner to aggregate information pertinent to the request using the Verizon BOC/ILEC business rules identified for Section 272(e)(1) reporting. Management further indicated that this response, limited to data consistent with the Verizon BOC/ILEC's current obligations under regulation, is provided in a timely manner to the requesting party.

**Objective IX: The BOC Shall Not Discriminate Against Any Entity in the Provision of Exchange Access Facilities and Services**

1. We obtained from management a list of exchange access services and facilities with their related tariff rates offered by the Verizon BOC/ILEC to each Section 272 affiliate.

We requested brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of exchange access services and facilities. Management indicated that the informational media used to inform carriers of the availability of these services includes industry letters, the Verizon Wholesale Markets website, Account Team contacts, tariffs, and the Section 272 affiliate website.

We inspected the industry letters and noted that there were no rates, terms, and conditions. We inquired of management and management indicated that the industry letters are made available through the Verizon Wholesale Markets website, which also refers potential customers to their Verizon Account Team for pricing information. Management also indicated that Verizon's Account Team refers customers to the appropriate tariff when a customer calls to inquire of related rates.

We noted that hyperlinks to the tariffs are available through the Verizon Wholesale Markets and the Section 272 affiliates websites. We also noted that the hyperlinks on both the Verizon Wholesale Markets and the Section 272 affiliates websites lead to the identical web page containing the tariffs, [http://www.bellatlantic.com/tariffs\\_info/fcc/index.htm](http://www.bellatlantic.com/tariffs_info/fcc/index.htm). The related tariffs include the rates, terms and conditions for exchange access services and facilities provided by the Verizon BOC/ILEC.

We inspected all forms of the informational media used to inform carriers of the availability of exchange access services and facilities, and noted that these services are priced pursuant to the same tariffs as each Section 272 affiliate.

2. We requested a list of invoices for exchange access services and facilities, by Billing Account Number ("BAN"), for September 2002 (month selected by the Joint Oversight Team ("JOT")), rendered by the Verizon BOC/ILEC to Section 272 affiliates. We obtained a list of invoices for exchange access services and facilities, by Billing Account Number ("BAN"), for September 2002 rendered by the Verizon BOC/ILEC to GNI and VSSI. Management indicated that there were no exchange access transactions between VADI and the Section 272 affiliates in the month of September 2002. We inquired of management and management indicated that VLD, VES, and GSI did not purchase exchange access services and facilities for September 2002 from the Verizon BOC/ILECs. We selected a random sample of 100 out of a population of 367,971 billed items. The sample selected originated from 20 September 2002 invoices. We requested a list of the top ten IXC's, as agreed to by the JOT that purchased the related service in September 2002, using amount billed and central office locations as criteria. We inspected the underlying details of the invoices and compared the rates charged to GNI and VSSI with those charged to IXC's for the same services and noted the following:
  - For 95 of the 100 billed items, we noted no differences.
  - For 5 of the 100 billed items, we inquired of management and management indicated that there were no IXC's that purchased the selected billed item in the related Central Office.

We inquired of management and management indicated that exchange access services are priced pursuant to tariffs, which include rates, terms, and conditions.

3. For the 100 billed items from 20 invoices obtained in Procedure 2 above, we were unable to compare the invoice amounts to the amount recorded by the Verizon BOC/ILEC's in their general ledger. Management indicated that the amount recorded in the Verizon BOC/ILEC general ledger for exchange access services is an aggregate amount entered in batches, and not on a per-invoice basis. We obtained from management the aggregate amount booked by the Verizon BOC/ILEC in their general ledger for September 2002. We also obtained a written narrative describing how the Verizon BOC/ILEC's billing systems feed into the general ledger.

We obtained the Electronic Funds Transfer ("EFT") statements for the Section 272 affiliates, and compared the amount invoiced for the sample to the amount paid. We noted the following:

- For 18 of the 20 invoices, we noted no differences.
- For 1 of the 20 invoices, we noted differences resulting from late payments and outstanding credits.
- For 1 of the 20 invoices, management did not provide the related amount paid.

**Objective X: The BOC Shall Impute to Itself the Same Amount for Exchange Access as that Charged Unaffiliated Entities**

1. We obtained the list of interLATA services offered by the Verizon BOC/ILEC consisting of E911 interLATA Information Services ("E911"), Common Channel Signaling Access Service ("CCSAS") Gateway Access Service, National Directory Assistance ("NDA") Service, and Customer Name and Address Service ("CNAS"). We discussed the list with the Verizon BOC/ILEC who indicated that the list was complete. We compared services appearing on the list with the interLATA services disclosed in the Verizon BOC/ILEC's Cost Allocation Manual ("CAM") and noted no differences. We compared the non-regulated interLATA services listed in the Verizon BOC/ILEC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC Order and noted no differences.
2. From a population of four interLATA services offered by the Verizon BOC/ILEC in Procedure 1 above, we selected all four services for our sample. These services were E911, CCSAS, NDA, and CNAS. Management indicated that although the Verizon BOC/ILEC offer CNAS from September 2, 2002 through September 30, 2002, the service was not purchased by an unaffiliated entity or used by the Verizon BOC/ILEC.

For E911, CCSAS, and NDA, we obtained the analyses prepared by management and used to calculate the amount the Verizon BOC/ILECs impute (charge) themselves for access, switching, and transport. We also obtained usage details and tariff rates for each of the above elements. We compared rates used in the imputation studies with the tariff rates and noted no differences.

We compared the Verizon BOC/ILEC's imputation study amounts to their journal entries and noted the following:

- For E911, we noted no differences.
- For CCSAS, we noted that the imputation study amounts in Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont do not match the corresponding journal entries for each state. We inquired of management and management indicated that although the journal entries do not match the imputation study amounts on a jurisdictional basis, the combined imputation study amounts for New York and the New England states matches the total of the corresponding journal entries. Management indicated that the jurisdictional allocations were corrected in February 2003. We obtained from management the correcting journal entry that was made in February 2003 and their associated general ledgers (Reference Table 33).

Table 33

No.	State	Difference between Journal Entry and Study Amount**
1	Maine	1,127.52
2	Massachusetts	1,457.47
3	New Hampshire	(1,844.13)
4	New York	(18,463.86)
5	Rhode Island	(183.74)
6	Vermont	17,906.74
* Cumulative differences for the time period February 2000 – October 2002.		
* Differences shown represent journal entry amount less study amount.		

Management did not provide journal entries for Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia for September 2002. We inquired of Management and management indicated that, "Due to work constraints, entries, which would have normally been booked in November 2002, were not. These entries are relatively small in nature and will be updated along with the quarterly journal entry in February 2003."

According to the imputation study amounts provided for Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia, the following amounts should have been booked in September 2002. We obtained from management the correcting journal entry that was made in February 2003 and their associated general ledgers (Reference Table 34):

Table 34

No.	State	Study Monthly Amount
1	Maryland	\$ 802.87
2	New Jersey	\$ 390.80
3	Pennsylvania	\$ 1,495.30
4	Virginia	\$ 2,116.39
5	West Virginia	\$ 472.00

- Management indicated that NDA service was comprised of two components: NDA Transport Service and NDA DIP Service. For NDA Transport Service, we noted no differences.

For NDA DIP Service, we noted that the January 2001 and February 2001 journal entries in Massachusetts do not match the imputation study amounts. We inquired of management and management indicated that the journal entry in January 2001 was incorrect by (\$5,790.47). Management indicated the amount was corrected in February 2001. We obtained from management the correcting journal entry that was made in February 2001 and their associated general ledgers.

For NDA DIP Service, we noted that the September 2001 journal entries in Delaware and Pennsylvania do not match the imputation study amounts. The differences are (Reference Table 35):

Table 35

No.	State	Difference between Monthly Amount and Journal Entry <sup>#</sup>
1	Delaware	(6,435.04)
2	Pennsylvania	6,435.04
<sup>#</sup> Differences shown represent monthly amount less journal entry amount.		

We inquired of management and management indicated that the amounts were reversed for the two states. We obtained from management the correcting journal entry that was made in February 2003 and their associated general ledgers.

We traced the journal entries for the services to the general ledger and noted no differences.

3. For exchange access services, local exchange services, and unbundled network elements, we requested the total amount the Section 272 affiliates recorded and paid to the Verizon BOC/ILEC from January 3, 2001 through January 2, 2003. Management indicated that GNI and VSSI purchased exchange access services from January 3, 2001 through December 31, 2001; and VLD and GNI purchased exchange access services from January 3, 2002 through December 31, 2002. Management indicated that VLD, VES, GNI, and GSI purchased local exchange services from the Verizon BOC/ILEC from January 3, 2001 through January 2, 2003. Management also indicated that no Section 272 affiliates purchased unbundled network elements from January 3, 2001 through January 2, 2003.

For exchange access services, we compared the amounts recorded and paid by VLD, GNI, and VSSI to the Verizon BOC/ILECs and noted no differences. We compared the amount of revenue reflected in the Verizon BOC/ILEC's books to the amount the Section 272 affiliates paid. We noted a difference of \$9,110,138.91. We inquired of management and management indicated that reconciling items included late payment charges, disputed amounts, and timing differences between the issuance and payment of the bill. We compared the amount of revenue reflected in VADI's books to the amount paid by GNI and noted a difference of \$5.15.

For local exchange services, we compared the amounts recorded and paid by VLD, VES, GNI, and GSI and noted no differences. We requested the amount of revenue reflected in the Verizon BOC/ILECs books for local exchange services from the Section 272 affiliates. Management was unable to provide the amount of revenue reflected in the Verizon BOC/ILECs books for local exchange services provided to the Section 272 affiliates. Management indicated the following:

"Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC's general ledger systems. These amounts are aggregated on the books of the BOC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also matchoff process in place whereby the expenses recorded by the affiliate correspond to the revenue booked by the BOC. This process is used to eliminate intercompany revenue and expenses."

**Objective XI: The BOC May Not Discriminate Against Any Entity in the Provision of InterLATA or IntraLATA Facilities and Services**

1. We requested from management a list of interLATA network services and facilities with their related rates offered by the Verizon BOC/ILEC to each Section 272 affiliate. Management indicated that Wholesale National Directory Assistance ("WNDA") service rendered by the Verizon BOC/ILEC to GNI was the only interLATA network service and/or facility rendered by the Verizon BOC/ILEC to both affiliate and unaffiliated carriers from January 3, 2001 through January 2, 2003.

We requested brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of interLATA network services and facilities. Management indicated that the informational media used to inform carriers of the availability of these services includes- a brochure distributed to customer sales contacts at trade shows and other face-to-face venues with potential customers, the Verizon Wholesale Markets Services website, Account Team contacts, and the Section 272 affiliate website.

We inspected the brochure and noted that there were no rates, terms, and conditions. We inquired of management and management indicated that Verizon's Wholesale Markets website refers customers to their Account Team for pricing information. Management also indicated that Verizon's Account Team refers customers to a non-discriminatory contract when a customer calls to inquire of related rates. We noted that a summary of the non-discriminatory contract is posted on the Section 272 affiliate websites, which indicates the related rates, terms, and conditions of the contract.

We inspected all the informational media used to inform carriers of the availability of interLATA network services and facilities and noted that the service was priced pursuant to the same non-discriminatory contract as GNI.

2. Management indicated that WNDA service rendered by the Verizon BOC/ILEC to GNI was the only interLATA network service and facility rendered by the Verizon BOC/ILEC to a Section 272 affiliate from January 3, 2001 to January 2, 2003. Management indicated that there were no WNDA services rendered by VADI to the Section 272 affiliates from January 3, 2001 to January 2, 2003. We obtained the invoice for Wholesale National Directory Assistance service rendered by the Verizon BOC/ILEC to GNI for September 2002 (month selected by the JOT). Management indicated that no IXC's purchased Wholesale National Directory Assistance service from the Verizon BOC/ILEC during January 3, 2001 through January 2, 2003. Consequently, we could not compare rates, terms, and conditions charged to GNI to those of unaffiliated carriers.
3. For the invoice obtained in Procedure 2 above, we were unable to compare the amount invoiced to GNI for WNDA service to the amount recorded by the Verizon BOC/ILEC's in their general ledger. Management indicated that the amount recorded in the Verizon BOC/ILEC general ledger for this service is an aggregate amount entered in batches, and not on a per-invoice basis. We obtained a written narrative describing how the Verizon BOC/ILEC's billing systems feed into the general ledger. We also obtained a narrative from management indicating the amount booked by the Verizon BOC/ILEC in their general ledger for September 2002 for WNDA.

We noted the amount booked in the general ledger as indicated by management differs from the amount invoiced to GNI by \$8,706.60. Management indicated the difference of \$8,706.60 "is attributable to revenue from MA CLECs who obtain national directory assistance as part of comprehensive Local Directory Assistance and Operator Services arrangements provided to those companies. Therefore, these CLECs did not receive the same service but the revenues were booked to the same MA account."

We obtained the corresponding EFT statement for the WNDA GNI invoice and compared the invoice amount to the amount on the EFT statement and noted a difference of \$4,719.96. Management indicated that the difference related to a late payment charge that GNI has disputed.

**Appendix B enumerates the procedures performed in connection with the Verizon BOC/ILEC, and the former GTE Section 272 affiliates<sup>4</sup>**

- A. Where the procedures refer to "ILEC", we performed the procedures only in states that the BOC received Section 271 authority as of the engagement period (Reference Appendix A for our results).
- B. For the following Section 272 affiliates, CICI, TCI, TCQI, CANTV, and TNZ USA, we completed the following:
  - 1. We inquired of management and management provided the interLATA revenue and number of interLATA customers data to the Oversight Team.
  - 1. We inquired of management of the following:
    - a. Were there any changes in the Company's certificate of incorporation, bylaws, and articles of incorporation, or any "doing business as" (DBA) name change, since the last engagement period?
    - b. Did any Verizon BOC/ILEC perform operations, installation, and maintenance functions over facilities either owned or leased by the affiliate?
    - c. Did the Company perform operations, installation, and maintenance functions over facilities either owned or leased by a Verizon BOC/ILEC?
    - d. Did any Verizon BOC/ILEC perform research and development activities on behalf of the affiliate?
    - e. Were there any facilities owned jointly with a Verizon BOC/ILEC?
    - f. Was the Company's general ledger linked in any way (outside of linkage at corporate headquarters for consolidations) to the general ledger of any Verizon BOC/ILEC?
    - g. Did the Company maintain any books, records, or accounts that were not separate from those of any Verizon BOC/ILEC?
    - h. Were there any books, records, or accounts that were not maintained in accordance with GAAP? Were there any leases that were not accounted for in accordance with GAAP?
    - i. Did any directors or officers of the Company serve simultaneously as a director and/or officer of any Verizon BOC/ILEC?

---

<sup>4</sup> For the purposes of this document, the former GTE Section 272 affiliates are CODETEL International Communications Inc (CICI), TELUS Communications Inc (TCI), TELUS Communications Quebec Inc (TCQI), Compania Anonima Nacional Telefonos de Venezuela (CANTV), and Telecom New Zealand USA Limited (TNZ USA).

- j. Were any employees of the Company employed simultaneously by any Verizon BOC/ILEC?
- k. Did the Company have any recourse, in any manner, to any Verizon BOC's/ILEC's assets?
- l. Were any assets sold or transferred between any Verizon BOC/ILEC and the Company?

Management indicated "no" for each of the above questions for CICI, TCQI, and TNZ USA. For TCI, management indicated "no" for questions "a" and "d" to "k". Management indicated "yes" for questions "b", "c", and "i" for TCI. For CANTV, management indicated "no" for each of the above questions except for question "i", where they indicated "yes".

- We performed Objective I, Procedure 3 for TCI and noted the following:

We inquired of management which entities perform operations, installation and maintenance ("OI&M") functions over facilities either owned or leased by TCI. Management indicated the following:

"GTE Communication Systems Corporation, a non-regulated Verizon affiliate, acting through its Verizon Logistics division provided repair of plug-in cards for TCI switches located in Canada from the merger closing date through 2002. As part of the repair service, Verizon Logistics tested the plug-in cards on a test switch owned by Verizon California. The test switch was not connected to the network. Verizon Logistics discontinued providing the services to TCI in 2002. A contract between TCI and Verizon California for use of the test switch by Verizon Logistics during the past period was executed on April 10, 2003. Said agreement has been posted to the TCI Section 272 website for public inspection. Verizon Logistics is currently training TCI employees to repair their own cards."

We requested management's definition and interpretation of OI&M functions and management indicated the following:

"Verizon's management has included the following guidance in its Affiliate Transaction Policy. This guidance, which is based on para. 158 of the non-accounting safeguards order in FCC Docket 96-149, is Verizon's definition of OIM. Like the FCC's order, Verizon's instructions for compliance with this requirement rely on the common meaning of the words in the FCC's rules. Specific cases are reviewed by counsel. Under the 272 regulations, the FCC prohibits Verizon's ILECs and any Verizon affiliate, other than another Section 272 affiliate, from performing operation, installation or maintenance (O,I or M) functions associated with switching or transmission facilities owned or leased by a Section 272 affiliate. An ILEC and Section 272 affiliate may not have joint ownership of transmission and switching facilities or the land and buildings where those facilities are located. A Section 272 affiliate may not perform operations, installation, or maintenance functions associated with switching or transmission facilities owned or leased by the ILECs."

We inquired of management whether or not any of these services are being performed by Verizon BOC/ILECs and other affiliates, on facilities either owned or leased by TCI. Management indicated the following:

“Between January 18, 2001 and January 22, 2002 TCI’s Systems Support and Repair organization located in Burnaby, British Columbia repaired six Verizon GTD5 plug-in cards sent by Verizon Logistics for repair on behalf of Verizon Florida. TCI agreed to provide Verizon repair services and services were provided on an “as is” basis, without any representations or warranties of any kind. The total charge for the service was \$2,636.02. On March 12, 2003, a services agreement was entered into between TCI and Verizon regarding these transactions. Said agreement has been posted to the TCI Section 272 website for public inspection.”

- We performed the “joint ownership test” in Objective I, Procedure 5 for TCI and noted the following:

During the period from January 3, 2001 through September 30, 2002, Verizon Florida purchased plug-in equipment from TCI. Management indicated that, occasionally, TCI posts on the Verizon Recovery Operations website requests for quotations (“RFQ”) for surplus or used materials it no longer requires and wants to sell. The Verizon Recovery Operations website, <http://www.verizonro.com>, is a publicly accessible site.

On April 1, 2001, October 3, 2001, March 4, 2002, and June 4, 2002, TCI posted RFQs for used and surplus equipment. Verizon Florida submitted bids on the equipment listed in the RFQs.

- On April 20, 2001, TCI awarded the bid for equipment contained in the April RFQ to Verizon Florida, the highest bidder for the equipment.
- On October 2001, TCI awarded the bid for equipment contained in the October RFQ to Verizon Florida, the only bidder for the equipment.
- On March 18, 2002, TCI awarded the bid for equipment contained in the March RFQ to Verizon Florida, the only bidder for the equipment.
- On June 28, 2002, TCI awarded the bid for equipment contained in the June RFQ to Verizon Florida, the highest bidder.

We obtained from management a copy of the invoices sent by TCI to Verizon Florida for the equipment purchases. We noted that the equipment was “invoiced to” and “shipped to” Verizon Florida. We inquired of management and management indicated that the equipment was priced at prevailing market rate.

- On June 12, 2003, “Management indicated there were 6 instances of common officers and directors between CANTV and Puerto Rico Telephone Company. Management indicated this situation is under review. CANTV began operating as a Section 272 affiliate in November 2001.” Due to the late disclosure of the item, we were unable to perform Objective III, Procedure 1 prior to the filing of this report.
3. Reference Objective V/VI, Procedure 1 for the former GTE Section 272 affiliates outlined in part d) below.

4. We inquired of management as to the existence of any former GTE Section 272 affiliate transactions and/or relationships between the former GTE Section 272 affiliates and the Verizon BOC/ILEC. We obtained details of the transactions and performed the procedures for Objectives V/VI through Objective XI as outlined Appendix B-1.
  5. We obtained management representation letters as listed in paragraphs 22, 23, and 24. The report discloses any instances of noncompliance revealed by the company in their management representation letters.
- C. For the following Section 272 affiliate, VSSI, we performed all procedures under Objectives I through XI. Reference Appendix A for our results.
- D. Relationship between Section 272 affiliates, other than those mentioned above, and all the ILECs:

We inquired of management as to whether any relationship in terms of structural, transactional, and nondiscrimination requirements exist between VLD, VES, GNI, and GSI and the Verizon ILECs. Management indicated that:

“All relationships and transactions between the former GTE ILECs and VLD, VES, GNI and GSI have been provided in response to the applicable procedures in Objectives 1 through 7. For Objectives 8 through 11, as required by the procedures, data was provided for the former GTE ILECs only in those states that the BOC received 272 authority as of the engagement period.”

Reference Appendix A for our results.

## Appendix B-1 Enumerates Procedures for Former GTE 272 Affiliates, Step D

### Objective V & VI: Affiliate Shall Conduct All Transactions with the BOC at Arm's Length, and the BOC Shall Account for All Transactions with the Separate Affiliate in Accordance with FCC Rules

1. We documented in our workpapers the procedures used by the Verizon BOC/ILECs to identify, track, respond, and take corrective action to competitors' complaints with respect to alleged violations of the Section 272 requirements.

We obtained from the Verizon BOC/ILECs a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716, and any written complaints made to a state regulatory commission from competitors involving the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed from January 3, 2001 through September 30, 2002. We also obtained a list of outstanding complaints from the prior engagement period, January 3, 2000 through January 2, 2001, which had not been resolved during that period. This list categorizes the complaints as follows:

- allegations of cross-subsidies (for Objective V and VI);
- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);
- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);
- allegations of discriminatory availability of exchange access facilities (for Objective IX);
- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI);

For each group of complaints, we inquired of management and reviewed documentation as to how many of the complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved. For those complaints that had been resolved, we inquired of management how those allegations were concluded, and if the complaint was upheld, what steps the Company has taken to prevent those practices from recurring. Management indicated the following:

- No formal and/or informal complaints have been made by competitors against TNZ USA, CICI, TCI, TCQI, and CANTV during the engagement period.
  - There are no outstanding complaints against TNZ USA, CICI, TCI, TCQI, and CANTV that have not been resolved from the prior engagement period.
2. We inquired of management and management indicated that the Verizon BOC/ILEC current written procedures for transactions with affiliates apply to all Section 272 affiliates, including former GTE Section 272 affiliates.
  3. We inquired of management and management indicated that there are procedures for disseminating the FCC rules and regulations and raising awareness among employees for

compliance with the affiliate transactions rules for all Section 272 affiliates, including former GTE Section 272 affiliates.

We inquired of management and management indicated that an affiliate compliance training course, which included a Section 272 affiliate section, was presented to representatives of the former GTE Section 272 affiliates. Management indicated that affiliate compliance training courses were presented to the former GTE Section 272 affiliates on the following dates:

- CANTV - 09/20/2002
- TCI - 12/05/2001
- CICI - 04/2001
- TNZ USA - 01/2002

4. We obtained a list of all written agreements for services between the Verizon BOC/ILEC and each former GTE Section 272 affiliate that were in effect from January 3, 2001 through September 30, 2002. We inquired of management and management indicated that there were no agreements for interLATA and exchange access facilities between the Verizon BOC/ILEC and the former GTE Section 272 affiliates from January 3, 2001 through September 30, 2002. For the 6 agreements, we obtained copies of written agreements and summarized these agreements in our workpapers, noting names of parties, type of service, rates, terms, and conditions. We further noted which agreements were still in effect as of September 30, 2002 and for those agreements which were no longer in effect, indicated the termination date. We inquired of management and management indicated that none of the 6 agreements provided for the former GTE Section 272 affiliates were terminated prematurely.

We inquired of management regarding the provisioning of services without written agreements. Management indicated the following (Reference Appendix A, Objective V/VI, Procedure 4):

- “During the engagement period of January 3, 2001 through September 30, 2002, the following instances describe the provisioning of services prior to the execution of a written agreement or amendment. All of the 6 instances have been reviewed and written agreements/amendments were executed as needed. In all cases, contracts were executed when the condition was identified. Since Verizon began its Section 272 compliance activities, more than 1300 contractual arrangements have been executed.

All instances reflect GTE relationships/activities that were in place prior to the merger with Bell Atlantic and that continued without a contract for a period after the merger. All of the activities have since been contracted (for the past period) and terminated.

- 5 of the 6 are associated activities between a former GTE ILEC and a minority-owned international Section 272 company. The collective billing for four of these contracts is \$30,000. All five resulted in cumulative billings of about \$200,000.

The following describes the specific 5 instances:

- “Service Bureau Agreement for Network Operations Center (NOC) Services – TELUS Communications Inc. (TCI) received NOC services from the ILECs (former GTE) via a service bureau agreement executed June 23, 1998 (pre-merger). This agreement had a termination date of June 22, 2001. On June 29, 2001, Verizon sent a

letter to TCI documenting their mutual decision to extend the service bureau agreement for a period of 30 calendar days, renewable in 30-day increments, and cancelable by either party on 30 days notice. On June 29, 2001, TCI signed the extension letter. On October 22, 2002 Verizon sent a letter to TCI terminating the agreement as of December 31, 2002. Both the June 2001 and October 2002 letters were posted on November 1, 2002.

- Training Services - This entails TELUS Communications Inc.'s (TCI's) provision of training services to Verizon Hawaii and Verizon South (North Carolina) between January 1, 2001 and January 1, 2002. TCI's Learning Services organization provided training to unaffiliated third parties, until July 17, 2002, at which time the TCI Learning Services organization divested its external training business. TCI conducted 27 sessions for Verizon Hawaii and 2 sessions for Verizon South. All sessions were associated with managing Norstar or Meridian office systems. A written agreement has been executed, retroactive to the start of these services.
- Equipment Purchases - This entails Verizon Florida's purchase of plug-in equipment from TELUS Communications Inc. ("TCI"). From time to time, TCI posts on the Verizon Recovery Operations website (<http://www.verizonro.com>), a website available to the public, requests for quotations ("RFQs") for surplus or used materials it no longer requires and wishes to sell. On April 1, 2001, October 3, 2001, March 4, 2002 and June 4, 2002, TCI posted RFQs for used Nortel equipment and other used and surplus equipment. Verizon Florida submitted bids on the equipment in these RFQs.
  - TCI, on April 20, 2001, awarded the bid for equipment contained in the April RFQ to Verizon Florida, the highest bidder for the equipment.
  - TCI, on October 2001, awarded the bid for equipment contained in the October RFQ to Verizon Florida, the only bidder for the equipment.
  - TCI, on March 18, 2002, awarded the bid for equipment contained in the March RFQ to Verizon Florida, the only bidder for the equipment.
  - TCI, on June 28, 2002, awarded the bid for equipment contained in the June RFQ to Verizon Florida, the highest bidder.

A written agreement has been executed to reflect the 2002 Verizon Florida's purchase of the TCI equipment. An amendment to incorporate the 2001 purchases is currently being developed.

- Use of CA Test Switch - Verizon Logistics, a non-regulated Verizon affiliate, had been providing repair of plug in cards for TCI since 1995 and continued to do so after the merger closing date and through 2002. As part of the repair service, Verizon Logistics tested the plug-in cards on Verizon CA owned test (not connected to the network) switch. The contract for this service was executed on April 10, 2003. TCI no longer does repair work for parties external to TCI and, further, TCI has a process in place to return requested repair work if Verizon mistakenly sends such requests to TCI."
- Repair Services - Between January 18, 2001 and January 22, 2002, TCI's Systems Support and Repair organization located in Burnaby, British Columbia repaired certain Verizon GTD5 plug-in cards sent by Verizon Logistics for repair on behalf of